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FISCAL IMPACT STATEMENT

LS 7351

BILL NUMBER: HB 1438

NOTE PREPARED: Jan 12, 2013

BILL AMENDED:

SUBJECT: Small Business Loans.

FIRST AUTHOR: Rep. Niezgodski

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill establishes the Small Business Loan Program administered by the Indiana finance authority (IFA). It establishes the small business loan fund and authorizes the IFA to transfer money in the fund to financial institutions for deposit at reduced interest rates. The bill requires the financial institution to loan the money to approved small businesses. The bill provides that the interest rate charged to the small business may not exceed the rate payable to the IFA plus 3%. The maximum amount that may be deposited for a particular small business loan is \$25,000 and at least 50% of the deposits received by a financial institution for a small business loan may not exceed \$10,000.

This bill requires an annual report from the entity responsible for carrying out the duties of the Indiana Economic Development Corporation (IEDC) concerning small business development.

Effective Date: July 1, 2013.

Explanation of State Expenditures: *Indiana Finance Authority (IFA):* The bill establishes the Small Business Loan Program and the Small Business Loan Fund both to be administered by the IFA. Money in the Fund would be used by the IFA to make loans under the program. The Fund is non-reverting and money in the Fund is to be used to conduct the Small Business Loan Program. The Fund consists of appropriations; gifts, grants, and donations; investment income earned on the Fund's assets; and repayments of loans from the Fund. The bill allows the IFA to use interest earned on the Fund to pay for administrative expenses of the Fund. The bill requires the IFA to annually report on its activities relative to the Program to the Governor, Budget Committee, and the General Assembly.

Indiana Economic Development Corporation (IEDC): The bill requires the IEDC to review the annual report of the IFA and evaluate the effectiveness of the Small Business Loan Program. The bill requires the IEDC to submit its findings to the Governor, the Budget Committee, the IFA, and the General Assembly.

Additional Information: Under the Small Business Loan Program, loans would be made to qualifying small businesses by financial institutions participating in the program. The loans would be made with money deposited in the participating financial institutions by the IFA. To qualify for a loan a small business must be an independently owned and operated Indiana business that employs no more than 50 employees and has gross annual receipts not exceeding \$5 M. Loan proceeds may be used by a small business to purchase real property; construct, renovate, or expand a building; purchase equipment, furniture, fixtures, or inventory; or for working capital.

The bill requires the small business to apply to, and be approved for a loan by, a participating financial institution. The financial institution must then apply to, and be approved for the deposit by, the IFA. The bill requires a participating financial institution to pay interest on the deposit to the IFA. The maximum rate that the IFA may require is equal to the greater of 0% or the 52-week U. S. Treasury bill rate effective the day of the deposit minus 1.5%. (Note: The 52-week U. S. Treasury bill rate on January 10, 2012 was 0.14%. The high in 2011 was 0.22% on June 28, 2012.) The bill allows a participating financial institution to charge a maximum interest rate on a loan equal to the rate payable to the IFA on the deposit plus 3%. Thus, if the pertinent Treasury bill rate is 2.5%, the IFA could charge a maximum rate of 1% on a deposit and a participating financial institution could charge a maximum rate of 4% on a loan. The maximum deposit that could be made by the IFA for a particular small business loan is \$25,000. The loan term may not exceed 5 years, and the interest does not accrue until 6 months after the agreement is executed. In addition, at least 50% of the deposits made to a participating financial institution for small business loans under the program must be used for loans not exceeding \$10,000.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Finance Authority; Indiana Economic Development Corporation.

Local Agencies Affected:

Information Sources: U.S. Department of the Treasury - Resource Center.

Fiscal Analyst: Heath Holloway, 232-9867.